

# A Consumer's Guide to **Homeowners Insurance**

If you have questions about your insurance, your main source of information should always be your agent or your Insurance company. The Illinois Department of Insurance and the Illinois Insurance Hotline are two other resources available to you.

**This brochure was developed through  
the combined efforts of:**

**Illinois Insurance Hotline  
1-800-444-3338**

**Illinois Department of Insurance**

**University of Illinois Extension**



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### WHY DO YOU NEED HOMEOWNERS INSURANCE?

Home is where the heart is... and also your sofa, TV, jewelry, etc. Whether you live in a house, apartment, or condo, your home and personal property are subject to unexpected dangers like fire, theft, and tornado. Could you rebuild, repair, or replace your home and belongings if an unforeseen loss occurred? If not, you need insurance.

If you own your home you need insurance on your house, outbuildings, and personal belongings. Most lenders require homeowners insurance.

If you rent or own a condominium you need insurance on your personal belongings. There may be insurance on the building you live in, but it doesn't protect your property.

It's also a good idea to have liability insurance. This protects you when you're legally responsible for causing injury to others or damage to their property.

Look for a package plan that combines coverage for theft, liability, and other dangers. These plans can vary between companies. It's important to read your policy.

### HOW DOES HOMEOWNERS INSURANCE PROTECT YOU?

A homeowners insurance package policy protects you in two basic ways.

#### Liability Protection

Liability coverage protects you when you, your family, or even your pets are responsible for injury to others or damage to their property. It pays up to the liability insurance limit you bought. It also pays for a lawyer to defend you if you need one.

Liability protection also includes medical payments coverage. It pays medical expenses for someone who's accidentally injured on your property or injured by you, a member of your family, or your pets. It pays up to the medical payments limit you bought. There's coverage no matter who is at fault. Medical payments coverage doesn't apply to your injuries or those of family members living with you.

Liability and medical payments also protect you when injury or property damage to others occurs away from home.

### **Property Protection**

Property coverage is the most complex part of your policy. It pays for damage to your home, personal belongings, and detached buildings on your property (like garages or tool sheds).

The policy spells out when damages will be covered. These situations, called "covered perils," are events that cause sudden and accidental damage to your property. Examples of covered perils are fire, windstorm, and theft.

Your personal belongings are covered anywhere in the world. The policy pays if you're robbed at gunpoint or if your luggage is stolen while you're on vacation. There may be a limit on the amount you can recover on property damaged/destroyed away from home, or on high-priced items like jewelry and computers.

You must satisfy your deductible every time you turn in a property claim. A high deductible lowers your insurance premium, but you'll pay more out of pocket when a loss occurs.

Most policies also provide additional living expense coverage. This pays for costs above your normal living expenses when a covered loss forces you to move from your home temporarily. For example, it may pay part of your motel and restaurant expenses if a fire destroys your house or apartment.

### **Exclusions**

Insurance isn't designed to pay for every loss that happens. Situations when there's no insurance are called "exclusions." It's important to read the exclusions listed in your policy before a loss happens.

Some exclusions affect property coverage. A situation may be excluded because it's not sudden and accidental. For example, there's no coverage for damage caused by wear and tear, age, rotting, or lack of maintenance. Homeowners insurance will not pay to repair a rotting wooden porch. Cars, boats, motorcycles, jet skis,

all-terrain vehicles (ATV's), or snowmobiles are excluded because different kinds of policies usually cover them. Catastrophes like earthquake, flood, war, and nuclear disaster aren't covered by homeowners insurance. Most policies exclude property damaged by collapse of an underground mine, sewer back up, or sump pump overflow. (Standard policies do cover water damage caused by a pipe bursting, a broken water heater, or a heating system.)

Some exclusions affect liability coverage. For example, most policies exclude liability coverage for business activities.

You can "buy back" coverage for some exclusions with a policy endorsement. An endorsement adds to, or changes the terms of the contract.

## **HOW MUCH COVERAGE DO YOU NEED?**

### **On your home:**

Your home is probably your largest single investment, so fully protect it. It's best to choose a coverage limit equal to the cost of completely rebuilding your home. This figure is called replacement cost.

Replacement cost means how much it costs to rebuild (not counting the price of the land) with materials of like kind and quality, without subtracting (depreciating) for age or wear and tear.

If you don't insure your home for its full replacement cost, your claim settlement may not pay the full cost to repair or rebuild. In fact, depending on how much coverage you have, how much coverage you should have, and the amount of your claim, you may get thousands or even tens of thousands of dollars less.

Replacement cost is not the same as "market value." Market value is a real estate term for the current value of your home if you were to sell it. Market value includes the price of land.

Some homeowners want only enough insurance to pay for the actual cash value (ACV) of their home if it's damaged or destroyed. ACV is replacement cost minus

depreciation. Depreciation is the decrease in home or property value due to age or wear and tear.

Loss settlements are depreciated (decreased due to age or wear and tear) if you insure your home on an ACV policy. This means you won't be paid the full cost of the repairs. Depreciation isn't an issue with a replacement cost policy, which makes it a better option.

If you have a loss on a replacement cost policy, the company will depreciate your claim settlement at first. But, once the work is done you'll receive the difference (up to the policy limit) between the cost of repairs and the ACV. You won't get the additional payment if you don't repair or rebuild. The policy limit is the maximum amount the insurance company will pay if a total loss occurs.

You'll get more protection with a guaranteed or extended replacement cost policy. Guaranteed replacement cost lets you rebuild your home if it's destroyed by an insured peril, even if it costs more than the policy limit. Extended replacement cost holds the claim to a certain percentage above the policy limit, like 20%. These endorsements may be available only on newer homes, and may require them to be insured for full replacement value.

It's important to understand your policy's coverage requirements and insure your home for the proper amount!

#### **On your personal belongings:**

Make a room-by-room list of your belongings. Include brand names, model information, serial numbers, and receipts. Photographs, videos, and value appraisals are also useful. Use the inventory to choose a personal property limit.

Most policies insure personal belongings for half the building limit. If your home is insured for \$100,000, your limit for personal property will often be \$50,000. Talk to your insurance agent if you need more coverage than your policy provides.

Personal property losses are settled on an actual cash value basis (after you pay the deductible). ACV means replacement cost minus depreciation. Consider buying contents replacement cost coverage if it's available. If you have a loss, the claim settlement will be depreciated at first. But, you'll get the difference between the ACV and today's price once the damage is repaired or the item is replaced.

This is how contents replacement cost works. Suppose you spend \$500 on a new sofa. In five years the sofa will be worth about \$300, but it may cost \$800 to replace it. One day a fire destroys the sofa. With contents replacement cost coverage you'll get the full \$800 after you replace the sofa. Without it you'll only get \$300, its depreciated value.

In most cases the extra protection is worth the additional cost. Replacement cost coverage doesn't apply to all personal property losses. Items like art, antiques, photos, and collections (like stamp or coin collections) are usually settled on an actual cash value basis.

## **WHAT HOMEOWNERS INSURANCE PLANS ARE AVAILABLE?**

Many companies use generic names for their homeowners insurance policies. Others come up with their own names.

**HO-2** (also called "broad" or "standard" form) and **HO-3** (also called "special" or "deluxe" form) are common replacement cost policies. They pay the full cost of repairing or rebuilding your damaged home (up to your policy limit).

**HO-8** (also called "modified coverage" form) provides coverage for the perils listed in the policy. Loss settlements are based on repair costs and/or depreciation.

**HO-4** (also called "renters insurance") protects the special needs of renters.

**HO-6** (also called "condo insurance") protects the special needs of condominium owners.

The chart on pages 8 and 9 outlines the kinds of losses covered by HO-2, HO-3, HO-8, HO-4, and HO-6 policies. In general, premiums are higher when more perils are covered. Buy the right policy for your needs.

### IS RENTERS INSURANCE NECESSARY?

Even if you don't own your home you should insure your belongings and have personal liability coverage. The owner of the house or apartment building doesn't have insurance to protect you or your belongings. Neither does the property manager.

As a renter, you need an HO-4 insurance policy. It covers personal property for the same perils as an HO-2 (broad form) policy. It provides personal liability coverage, medical payments, and additional living expenses too.

### WHAT ABOUT A CONDO POLICY?

First, find out where your responsibilities start and the condo association's end.

Most condo associations have property and liability insurance for the building and common grounds. But this doesn't protect your personal belongings or personal liability exposure. It may not cover the inside walls, built-in appliances, kitchen cabinets, bathroom fixtures, plumbing, or wiring either. You can insure these things with a condo policy (HO-6).

An HO-6 policy covers personal property for the same perils as an HO-2 (broad form) policy. It provides personal liability coverage, medical payments, and additional living expenses too.

### ARE THERE ADDITIONAL COVERAGES?

On top of the coverages already mentioned, most homeowners policies also include:

- Debris removal.
- Removal of damaged property.
- Trees, shrubs, plants or lawns damaged by a covered peril.

- Fire department service charges.
- Temporary repair costs after a loss.
- Loss (like theft) from a credit card, fund transfer card, forgery or counterfeit money.

Read your policy or check with your agent for more details.

### WHAT OPTIONAL COVERAGES ARE AVAILABLE?

You can add optional coverages, called endorsements, for an additional cost. Endorsements change the policy to meet your specific needs. Common endorsements are:

- **Building Guaranteed or Extended Replacement Cost.** Guaranteed replacement cost pays to rebuild your home even if it costs more than the policy limit. Extended replacement cost restricts the maximum payout to a certain percentage above your policy limit, like 20%.
- **Earthquake.** Pays for damage caused by earthquake.
- **Flood.** Pays for damage caused by flood. Flood insurance is available from a variety of insurance companies, as well as the National Flood Insurance Program. You must live in a community that participates in this federal program. Lenders require flood insurance if you live in certain flood hazard areas.
- **Home Business.** Provides limited coverage for business machines, tools, and liability. Ask about this endorsement if you have a home-based business.
- **Inflation Guard.** Automatically raises coverage limits each year based on price increases for building materials and labor (inflation).
- **Mine Subsidence.** Pays when an underground mine shift causes damage to your property. Companies must offer mine subsidence insurance in counties where mines are under 1% or more of the land. Underground mines are common in central and southern Illinois, but other areas of the state are affected too. You must sign a rejection form to remove this coverage if you live in a county requiring mine subsidence insurance.
- **Personal Property Replacement Cost.** Changes personal property loss settlement to replacement cost basis.

## Property Losses Covered in Common Home Insurance Policies

Kind of Policy

Losses Covered

Broad	Special		Older Home	Renters	Condo	
HO-2	HO-3	HO-3 + HO-15	HO-8	HO-4	HO-6	House Contents
▲▲	▲▲	▲▲	▲▲	▲	▲	Fire or lightning.
▲▲	▲▲	▲▲	▲▲	▲	▲	Losses of property away from premises endangered by fire or other perils.
▲▲	▲▲	▲▲	▲▲	▲	▲	Windstorm or hail.
▲▲	▲▲	▲▲	▲▲	▲	▲	Explosion.
▲▲	▲▲	▲▲	▲▲	▲	▲	Riot or civil commotion.
▲▲	▲▲	▲▲	▲▲	▲	▲	Aircraft
▲▲	▲▲	▲▲	▲▲	▲	▲	Vehicles
▲▲	▲▲	▲▲	▲▲	▲	▲	Smoke
▲▲	▲▲	▲▲	▲▲	▲	▲	Vandalism & malicious mischief.
▲▲	▲▲	▲▲	▲▲	▲	▲	Theft.
▲▲	▲▲	▲▲	▲▲	▲	▲	Breakage of glass that is part of the building.
▲▲	▲▲	▲▲	▲▲	▲	▲	Falling objects.
▲▲	▲▲	▲▲	▲▲	▲	▲	Weight of snow, sleet, ice.
▲▲	▲▲	▲▲	▲▲	▲	▲	Collapse of building(s) or any part thereof.
▲▲	▲▲	▲▲	▲▲	▲	▲	Sudden & accidental tearing apart, cracking, burning, bulging of steam/hot water heating system, or appliance for heating water.
▲▲	▲▲	▲▲	▲▲	▲	▲	Accidental discharge, leakage, or overflow of water or steam from plumbing, heating and a/c system, or home appliance.
▲▲	▲▲	▲▲	▲▲	▲	▲	Freezing of plumbing, heating and a/c system, or home appliance.
▲▲	▲▲	▲▲	▲▲	▲	▲	Sudden & accidental damage from artificially generated current to electrical appliance, devices and fixtures, and wiring.
	▲	▲				All losses except flood, earthquake, war, nuclear accident and other perils specified in the policy.

- **Refrigerated Products.** Pays for goods damaged in your refrigerator or freezer.
- **Scheduled Personal Property (Floater).** Pays for damage to special belongings like jewelry, furs, coins, computers, antiques, artwork, and silverware. Scheduled items are covered for more perils.
- **Sewer Backup and Sump Pump Overflow.** Pays for damage to your finished basement caused by sewer backup or sump pump overflow.
- **Watercraft.** Covers small sailboats and outboard motorboats. It broadens the personal liability and medical payments coverage.

## WHAT FACTORS AFFECT HOMEOWNERS INSURANCE RATES?

In general, insurance premiums must be enough to support:

- **Company Operations.** Insurers pay employees, office expenses, taxes, etc.
- **Policyholder Claims.** There must be adequate funds on hand to pay losses.
- **Financial Return.** A publicly held stock insurer must satisfy its shareholders. A mutual company is owned by policyholders and must address their concerns.

Insurance pricing is linked to loss potential. The lowest rates go to those least likely to have claims. Insurers are always looking for better ways to evaluate risks and accurately predict losses.

The specific policy premium depends on a variety of factors. Among these:

- **Age of Dwelling.** Newer dwellings tend to have fewer losses, and cost less to insure.
- **Building Construction.** Frame homes burn more easily and cost more to insure than masonry construction.
- **Condition of Dwelling.** Well-kept, updated dwellings are less likely to have losses, and cost less to insure.
- **Coverage Limit.** Higher value homes cost more to insure.
- **Credit.** There is a statistical relationship between credit and claims. Those with good credit generally have fewer claims and pay lower insurance premiums.

- **Deductible.** Taking a high deductible will lower your premium. However, you'll pay more out of your pocket when a loss occurs.
- **Location.** A fire is more likely to be contained (and cause less damage) when the home is close to a fire hydrant and located in a quality fire protection district. Each community fire protection district is periodically evaluated and rated according to training, fire-fighting equipment, response time, and water supply. Insurance costs less in locations with good fire protection.
- **Loss Experience.** Insurers consider past claims to predict the likelihood of future losses. You'll pay less for insurance if you have a good claim record.
- **Policy Form.** Contracts covering a wide range of losses cost more.

Other broad factors that affect homeowners insurance premiums:

- **Frequency and severity of claims.** This refers to how many claims the insurer handles overall, and how serious they are. Frequent and severe claim activity may cause an insurer to raise rates.
- **Building materials/labor costs, medical/hospital fees, lawsuit/court expenses.** Increases in these types of expenses affect insurance claim settlements.
- **Insurance fraud.** False claims and inflated/padded damage estimates raise claim costs.
- **Competition/Marketing Strategy.** Rates are based in part on each company's growth strategy and desire to be competitive with other insurers.

## ARE THERE DISCOUNTS?

Discounts can lower the cost of your policy. Examples include:

- **Protective devices.** Fire extinguishers, smoke alarms, deadbolt locks, on all outside doors, sprinkler system, or security alarm system hooked up to the police station.
- **Mature homeowners.** For those over 55 and retired.
- **Non-smoker.**
- **Multiple policies.** For those placing home and auto insurance with the same company.

- **New home.** For brand new homes, or those less than nine years old.
- **Fire resistant building materials.**

## SHOPPING TIPS.

**Comparison Shop.** Call several agents to compare quotes. You may also want to use the Internet. Many insurance companies and marketing firms are on-line now. Be sure the quotes you're comparing provide the same coverages and limits. Ask about discounts and deductible options.

### Choose a good agent.

- Can the agent explain the coverages and exclusions in terms you understand?
- Are the agent and staff polite and ready to help?
- Is the agent interested in helping you with all your insurance needs?
- Will the agent inspect or photograph your home to make sure it meets the insurer's guidelines? (This benefits both you and the company.)
- Are payment options fully explained? (There may be a service charge if you pay monthly or quarterly.)

### Consider the insurance company's financial rating and complaint record.

- Financial ratings suggest an insurer's ability to pay claims. A.M. Best, Standard & Poor, Moody's, and Fitch are rating services that evaluate insurance company financial strength.
- Satisfied customers are less likely to file complaints. The Illinois Department of Insurance keeps track of written complaints from consumers. These statistics are released annually.
- You can get an insurance company's financial rating and complaint record by calling the Illinois Insurance Hotline or the Illinois Department of Insurance. Complaint information is also available on the Department's website [www.insuranceillinois.gov](http://www.insuranceillinois.gov).

**Be sure the company and agent are licensed in Illinois.** Illinois insurance law applies only to companies and

agents licensed in this state. Also, companies not licensed in Illinois don't participate in the Insurance Guaranty Fund. The Guaranty Fund protects Illinois consumers when a licensed insurance company is placed in liquidation.

**Make sure you have enough coverage.** Can you rebuild your home for the amount it's insured for? Do you need extra insurance for antiques, furs, computers, coins, art, silverware, etc.? What about guaranteed or extended replacement cost, sewer backup, earthquake, mine subsidence, or flood insurance?

**Read your policy.** An insurance policy is a legal contract between you and the insurance company. Know what it does and doesn't cover BEFORE a loss occurs. Ask your agent to explain parts you don't understand.

**Do a room-by-room personal property inventory.** Make a list, take pictures, or better yet videotape your belongings. Provide brand names, model information, serial numbers and receipts whenever possible. Get appraisals for high value items. Update the inventory often. Store it in a safe place away from home. The inventory will provide proof of lost or damaged items if a loss occurs.

**Pay your premium by the due date.** Insurance companies don't have to give grace periods for late payments.

**Review your policy once a year.** Make changes as needed.

## WHAT IF YOU CAN'T GET INSURANCE?

Ask an agent about the Illinois FAIR Plan if you have trouble getting insurance. The FAIR Plan is an association that operates like an insurance company. All the property and casualty companies that sell basic property insurance in Illinois fund it.



The FAIR Plan has two main requirements:

- There must be three attempts to buy homeowners coverage from traditional insurance companies.
- The property must meet basic fire, loss prevention, and safety standards.

The FAIR Plan offers most of the home, personal property, and personal liability coverages that private insurance companies provide. You may be able to get a better deal from a traditional insurance company, so use the FAIR Plan as a last resort. Plan to explore other options once your situation improves.

### **WHAT IF THERE'S A LOSS?**

- Report criminal damage to police right away.
- Report the loss to your insurance agent or company as soon as possible.
- Make temporary repairs to protect property from more damage. Save receipts for materials. Give them to the insurance company for reimbursement.
- The company will assign a claim number and adjuster to your loss. Keep this and other important claim information in a central spot.
- Fill out a claim report. Describe the loss.
- Use your personal property inventory to make a list of things that are damaged, destroyed or missing. Photograph or videotape the damaged property. Return the proof of loss report, damage estimates, and other information the adjuster requests.
- Don't throw anything away until the adjuster has seen the damage and given his/her approval.
- If the damage is severe, you may have to move out of your home temporarily. Save receipts for expenses that are above your normal cost of living. Give them to the insurance company for reimbursement if you have additional living expense coverage.
- Find your insurance policy. The declarations page lists the policy limits and deductible that apply to the loss. Look for the policy form. Read the "coverages," "exclusions," and "conditions" sections. Follow through on any conditions you haven't met.
- Talk to your agent or adjuster about the claim process or settlement offer if you have questions.

### **WHAT IF YOU DISAGREE WITH THE COMPANY'S OFFER?**

- Talk to your insurance adjuster. You may be entitled to an adjustment if something was overlooked. State your case and offer documentation to support your position.
- Talk to your insurance agent. Agents have valuable insight that can help you through the claims process.
- If the problem is about the amount or value of your loss, you can request that appraisers decide on the amount of damage. Read the "appraisal" clause in your policy for more information.
- Try to work with the company to resolve the issue whenever possible.
- If you still have questions you can call the Illinois Insurance Hotline or the Illinois Department of Insurance.

### **COMMON HOMEOWNERS INSURANCE TERMS.**

- Actual Cash Value (ACV) - Replacement cost minus depreciation.
- Deductible - How much you agree to payout of pocket for each loss before the insurance company begins paying.
- Depreciation - Decrease in home or property value due to age or wear and tear.
- Endorsement - Written attachment that adds to or changes the terms of the policy.
- Exclusion - Specific situation or circumstance listed in the policy that describes when benefits will not be paid.
- Floater - Additional coverage for personal property such as jewelry, artwork, or antiques not otherwise included in a homeowners insurance policy.
- Liability - What you would legally pay when your fault or carelessness causes injury or damage to other people or their property.
- Peril - Event (like fire, tornado, theft, or vandalism) that causes damage to your property.
- Personal Property - Personal belongings such as furniture, appliances, clothes, jewelry, and bicycles.
- Premium - How much the insurance costs.

- Replacement Cost - How much it costs to replace contents, rebuild your home, or repair damages with materials of like kind and quality, without subtracting for depreciation.
- Replacement Cost Coverage - Building and/or Personal Property - Changes loss settlement to replacement cost basis.

### **MORE QUESTIONS?**

Start with your insurance agent or company. They have the specifics of your policy and can answer most of your questions. If you need more help, call the Illinois Insurance Hotline or the Illinois Department of Insurance

### **WHAT IS THE ILLINOIS INSURANCE HOTLINE?**

The Hotline is a consumer service funded by the insurance industry and operated by the Illinois Insurance Association. Hotline consultants answer questions about insurance issues, provide public information on insurance companies, and distribute free educational literature. Consultants don't recommend companies, agents, types of insurance, or amounts of coverage. Help is available 9 - 4 Monday through Friday by calling 1-800-444-3338, or by emailing [insurancehotline@illinoisinsurance.org](mailto:insurancehotline@illinoisinsurance.org)

### **WHAT IS THE ILLINOIS DEPARTMENT OF INSURANCE?**

The Illinois Department of Insurance is the state government agency regulating insurance companies and agents licensed to do business in Illinois by enforcing Illinois insurance laws and regulations. The Department protects Illinois citizens by providing insurance information, investigating problems, overseeing the conduct of insurance companies and agents, and monitoring the financial stability of insurance companies.

You should always try to resolve your problems directly with the company and/or agent involved first. If you are not satisfied with the answer you receive, you may contact the Department at:

100 West Randolph Street, Suite 15-100  
Chicago, IL 60601  
(312) 814-2427

or

320 West Washington Street  
Springfield, IL 62767-0001  
(217) 782-4515  
(866) 445-5364

or via the Internet  
[www.insurance.illinois.gov](http://www.insurance.illinois.gov)

### **WHAT IS THE UNIVERSITY OF ILLINOIS EXTENSION?**

University of Illinois Extension is the outreach arm of the University of Illinois College of Agricultural, Consumer, and Environmental Sciences. It helps people solve problems through education. Extension has offices in more than 80 counties. You can get quick answers to many questions by calling a local Extension office. You can also stop by an office and pick up a fact sheet or publication. Extension offers many informal educational programs. Look for the nearest office listed under University of Illinois Extension in your local phone directory. Or, visit their website at: [www.extension.uiuc.edu](http://www.extension.uiuc.edu).